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C O N F I D E N T I A L SANTO DOMINGO 001748

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PASS TO ROTHSCHILD IN WHA/CAR

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TAGS: [ENIV](#) [ENRG](#) [DR](#)

SUBJECT: ENERGY SECTOR POWER PLAY THREATENS INVESTMENT
CLIMATE

Classified By: Ellen M. Dunlap, Eco-Pol, reasons 1.4(b) and (d)

¶1. (C) Summary: The Dominican corporation of state electricity enterprises (CDEEE) is currently engaged in a political power play to recapture greater control of the electricity sector. CDEEE, which is the most powerful player in a fractured energy bureaucracy, has focused on both increasing the generation capacity within the country and renegotiating its power purchase agreements (PPAs) with existing independent power producers (IPPs). The CDEEE views the construction of new generation as leverage over the existing IPPs to force them to renegotiate their contracts, but appears to be entering into precisely the type of contract with the new IPPs that it wishes to renegotiate with existing producers. This set of circumstances has led to political posturing by the opposition Dominican Revolutionary Party (PRD), which has criticized the structure of the new plant deal. Ultimately the CDEEE is failing to address what most experts agree is the prime source of inefficiency in the electricity sector, which is the distribution system (Septel will address distribution system problems). End Summary.

¶2. (SBU) CDEEE is engaged in final contract discussions with Sichuan Machinery and Equipment and Emirates Power to build two coal-fired power plants with an installed capacity of up to 1200 megawatts (MW): the first phase would involve 600MW. Mr. Radhames Segura, the Executive Vice President of CDEEE, told Econoff that in order to leverage the financing necessary to build these plants, CDEEE is seeking congressional approval of letters of credit each worth \$30 million that would be renewable on a revolving basis. However, this quasi-sovereign guarantee was not part of the original tender solicitation and has sparked concern and speculation among the IPPs and opposition political parties.

¶3. (U) CDEEE is currently in the process of attempting to renegotiate all of its PPA contracts with the IPPs, including the U.S.-owned AES Dominicana. AES Dominicana has debt and equity investments in the country totaling approximately \$1.1 billion. It is the largest U.S. foreign investment in the Dominican Republic and has been operating here since 1999. AES' two power facilities produce roughly 38 percent of the Dominican Republic's electricity.

¶4. (C) CDEEE has approached these renegotiations without coming to the table with concrete offers for how they would be in the interest of the IPPs. As a result, AES Dominicana and the other IPPs are wary of reopening negotiations because they do not have a clear understanding of CDEEE's real intentions. The IPPs have little assurance that all IPPs will be treated equally and provided with terms permitting them to recover their investments. (Note: The IPPs have as much as US \$400 million in debt, which most producers want

paid prior to any renegotiation) Some IPPs have flatly refused to enter into new negotiations.

15. (C) CDEEE's current negotiation with Sichuan and Emirates is an example of how the government creates an uneven playing field. While requesting that existing IPPs renegotiate to bring down the cost of energy for the state owned distribution companies, it is entering into what appears to be a sweetheart deal with two new IPPs by issuing revolving letters of credit to the companies. Meanwhile, the renegotiation of the cost of energy with the IPPs is not expected to benefit consumers until the government's subsidies to the distribution companies are resolved, a problem not currently being fully addressed by CDEEE.

16. (C) Mr. Roberto Herrera, the general manager of the Electricity Company of San Pedro de Macoris (CESPM), a company which is 40 percent U.S.-owned, said flatly that if the sovereign guarantee had been part of the original tender solicitation every production company in the country would have offered to build new generation capacity. But he said that there was little reason to build so much additional capacity because there is currently sufficient installed capacity in the country to meet demand. Although demand is expected to grow by up to 6 percent a year, Mr. Herrera's analysis adds weight to the assertion that CDEEE is seeking to build new capacity as leverage against existing IPPs. Giving some credence to the allegations of CDEEE's intentions, a Bear Sterns analysis of the electricity sector in March 2007 cited the construction of these two coal-fired power plants as a threat to AES' operations.

17. (C) So far, the only IPP to have renegotiated with the CDEEE is the Palamara-La Vega plant which produces 187MW of electricity, a deal signed just last week. The agreement involved an immediate payment of debt, approximately half the

\$32 million it is owed from the distributors, with a promise to pay additional debts in quotas over five months. The signing of this deal is putting additional pressure on the other IPPs to renegotiate. Former CEO of Palamara-La Vega and current senior adviser to AES Dominicana, Mr. Kevin Manning, told Econoff that AES has been forced to expedite its renegotiation counter-offer as a result of the signing, but hypothesized that the CDEEE is unlikely to accept the terms.

Politics in the Middle

18. (U) The CDEEE's muddled efforts to resolve the problems in its electricity sector has transformed into a political fight between the ruling Democratic Liberation Party (PLD) and the main opposition PRD. The PRD alleged in the newspapers and in a communication to the Embassy's Poloff that CDEEE and the PLD leadership have overvalued the contract for the Emirates and Sichuan plants and claimed that the letters of credit to Sichuan and Emirates are unnecessary. The PRD claims the contracts CDEEE signed with Emirates and Sichuan, worth an estimated \$800 million, are overvalued by as much as \$270 million based on the agreed kilowatt hour purchase price for electricity.

19. (U) As a result of this political fight, the president of the Senate permanent commission on finances and contracts, Senator Tommy Galan, announced that he would convene a meeting between the PRD senators and the head of the CDEEE, Mr. Radhames Segura, to discuss the power plant contracts in detail and resolve any misunderstandings.

110. (C) Comment: The head of CDEEE, Mr. Segura, was an opponent of the capitalization of the energy industry in the first Fernandez administration and reportedly has presidential ambitions himself. Despite the PRD allegations, which were obviously politically motivated, there is still internal disagreement within the PLD about how to approach the energy sector. CDEEE's six-year energy strategy, which was presented to President Fernandez late last year, has never been formally adopted. Temistocles Montas, the

Secretary of State for Economy, Planning and Development, has

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publicly and privately been pushing to restrain Mr. Segura and the CDEEE in its efforts to exert greater control over the sector.

¶11. (SBU) The infighting is compounded by the fractured nature of the government's energy bureaucracy, with multiple agencies claiming primacy over planning and strategy. Ultimately, however, the real dilemma in the electricity sector stems from infrastructure and theft problems associated with the transmission and distribution systems, not from a lack of capacity. Ultimately, CDEEE's efforts to pressure the IPPs to renegotiate their contracts threatens the commercial viability of the producers as well as the investment climate for the country. End Comment.

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